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# THE MASSACHUSETTS TURNPIKE AUTHORITY

# 1997 ANNUAL REPORT

FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORTS

FOR THE YEARS ENDING
DECEMBER 31, 1997 AND 1996

MASSACHUSETTS TURNPIKE AUTHORITY

AND

MASSACHUSETTS TURNPIKE AUTHORITY
EMPLOYEES' RETIREMENT SYSTEM

KPMG

# MASSACHUSETTS TURNPIKE AUTHORITY

Financial Statements

December 31, 1997 and 1996

(With Independent Auditors' Reports Thereon)

KPMG Peat Marwick LLP

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# Independent Auditors' Report

Members of the Board of Directors
Massachusetts Turnpike Authority:

We have audited the accompanying balance sheet of the Massachusetts Turnpike Authority, a component unit of the Commonwealth of Massachusetts (the "Authority"), as of December 31, 1997, and the related statement of revenues, expenses and changes in retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Authority as of December 31, 1996, were audited by other auditors whose report dated March 7, 1997, expressed an unqualified opinion thereon.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority at December 31, 1997, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 11, 1998, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain laws, regulations and contracts.

During 1997, the Authority implemented Governmental Accounting Standards Board Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers.*

KPMG Peat Marwick LLP

March 11, 1998

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# MASSACHUSETTS TURNPIKE AUTHORITY

Balance Sheets

December 31, 1997 and 1996

| Assets | | 1997 | 1996 |
|---|---|---|---|
| Current Assets: | | | |
| Cash and cash equivalents (note 3) | $ | 30,204,495 | 28,209,075 |
| Restricted investments (note 3) | | 728,187,948 | 1,080,479 |
| Receivables | | 6,774,427 | 4,788,840 |
| Inventories | | 1,347,996 | 1,286,012 |
| Prepaid expenses | | 825,294 | 519,352 |
| Total current assets | | 767,340,160 | 35,883,758 |
| Restricted investments (note 3) | | 603,718,813 | 213,316,637 |
| Investments of deferred compensation plans (note 9) | | 17,803,975 | 15,047,325 |
| Property, plant and equipment, net (note 4) | | 1,482,838,916 | 751,872,183 |
| Other assets | | 5,299,874 | 4,094,758 |
| Total assets | $ | 2,877,001,738 | 1,020,214,661 |
| **Liabilities and Fund Equity** | | | |
| Current liabilities: | | | |
| Accounts payable | $ | 9,395,065 | 10,235,693 |
| Accrued payroll | | 1,059,988 | 845,037 |
| Compensated absences | | 6,777,243 | 5,650,824 |
| Other accrued expenses, deferred credits and miscellaneous liabilities | | 30,086,824 | 25,787,575 |
| Accounts payable from restricted investments: | | | |
| Accrued interest (note 5) | | 28,187,948 | 1,080,479 |
| Due to the Commonwealth of Massachusetts (note 6) | | 700,000,000 | - |
| Total current liabilities | | 775,507,068 | 43,599,608 |
| Accrued interest (note 5) | | 2,388,572 | - |
| Deferred compensation benefits payable (note 9) | | 17,803,975 | 15,047,325 |
| Bonds and notes payable, net (note 5) | | 1,713,685,737 | 604,186,089 |
| Total liabilities | | 2,509,385,352 | 662,833,022 |
| Fund equity: | | | |
| Retained earnings | | 367,616,386 | 357,381,639 |
| Total fund equity | | 367,616,386 | 357,381,639 |
| Commitments and contingencies (notes 10, 11 and 12) | | | |
| Total liabilities and fund equity | $ | 2,877,001,738 | 1,020,214,661 |

See accompanying notes to financial statements.

## MASSACHUSETTS TURNPIKE AUTHORITY

Statements of Revenues, Expenses and Changes in Retained Earnings

Years Ended December 31, 1997 and 1996

| | 1997 | 1996 |
|---|---|---|
| Operating revenues: | | |
| Toll revenue, net | $ 163,008,116 | 157,680,842 |
| Restaurants, concessions and service stations | 5,796,618 | 5,639,212 |
| Rentals | 5,492,896 | 4,764,426 |
| Court fines | 4,686,216 | 4,476,494 |
| Other | 2,567,439 | 1,165,720 |
| Total operating revenues | 181,551,285 | 173,726,694 |
| Operating expenses: | | |
| Operations and public protection | 71,340,785 | 78,272,437 |
| Repair and reconstruction | 23,074,862 | 40,035,922 |
| Administration | 26,038,251 | 26,255,375 |
| Retirement | 2,439,803 | 5,563,437 |
| Depreciation and amortization | 29,783,664 | 28,114,977 |
| Total operating expenses | 152,677,365 | 178,242,148 |
| Operating income (loss) | 28,873,920 | (4,515,454) |
| Nonoperating revenue and expense: | | |
| Interest income | 33,160,936 | 9,407,391 |
| Interest expense | (51,800,109) | (4,465,368) |
| Total nonoperating (expense) revenue | (18,639,173) | 4,942,023 |
| Income before extraordinary loss | 10,234,747 | 426,569 |
| Extraordinary loss on early retirement of debt (note 5) | - | (947,514) |
| Net income (loss) | 10,234,747 | (520,945) |
| Retained earnings, beginning of year | 357,381,639 | 357,902,584 |
| Retained earnings, end of year | $ 367,616,386 | 357,381,639 |

See accompanying notes to financial statements.

## MASSACHUSETTS TURNPIKE AUTHORITY

Statements of Cash Flows

Years Ended December 31, 1997 and 1996

| | 1997 | 1996 |
|---|---|---|
| Cash flows from operating activities: | | |
| Operating income (loss) | $ 28,873,920 | (4,515,454) |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 29,783,664 | 28,114,977 |
| Changes in operating assets and liabilities: | | |
| Receivables | (1,447,269) | 43,309 |
| Inventory | (61,184) | 8,580 |
| Prepaid expenses | (305,942) | (318,025) |
| Other assets | (1,205,116) | 3,405,210 |
| Accounts payable | (840,628) | (5,526,989) |
| Accrued payroll | 214,951 | (195,077) |
| Compensated absences | 1,126,416 | (2,047,040) |
| Other accrued expenses, deferred credits and miscellaneous liabilities | 4,299,249 | (64,978) |
| Net cash provided by operating activities | 60,438,061 | 18,904,513 |
| Cash flows from capital and related financing activities: | | |
| Acquisition and construction of capital assets | (61,070,211) | (230,407,761) |
| Interest on bonds and notes | (25,936,528) | (1,221,874) |
| Proceeds from debt issuance, net of discounts and issuance costs | 1,669,540,539 | 264,770,459 |
| Defeasance of debt | (555,909,413) | (56,572,964) |
| Principal payments on bonds and note | - | (18,567,150) |
| Net cash used for capital and related financing activities | 1,026,624,387 | (41,999,290) |
| Cash flows from investing activities: | | |
| Purchases of investments | (8,762,690,200) | (6,869,280,307) |
| Sales and maturities of investments | 7,645,130,555 | 6,897,395,744 |
| Interest income | 32,672,617 | 9,407,391 |
| Net cash provided by investing activities | (1,084,887,028) | 37,522,828 |
| Net increase in cash | 2,175,420 | 14,428,051 |
| Cash at beginning of year | 28,029,075 | 13,781,024 |
| Cash at end of year | $ 30,204,495 | 28,209,075 |

See accompanying notes to financial statements.

# MASSACHUSETTS TURNPIKE AUTHORITY

Notes to Financial Statements

December 31, 1997 and 1996

## (1) Organization

The Massachusetts Turnpike Authority (the "Authority") was established by Chapter 354 of the Acts of 1952 of the Commonwealth of Massachusetts (the "Commonwealth"). It is a public instrumentality that was authorized and empowered to construct, maintain, repair and operate a toll express highway, known as the Massachusetts Turnpike ("Turnpike"). Chapter 598 of the Acts of 1958 authorized and empowered the Authority to acquire from the City of Boston, the Sumner Tunnel and to construct an additional vehicular tunnel between Boston proper and East Boston, the Callahan Tunnel, and to operate and maintain both facilities. Chapter 102, as amended by Chapter 273 of the Acts of 1995, authorized the transfer of ownership of the Ted Williams Tunnel from the Commonwealth to the Authority. The Ted Williams Tunnel is currently owned by the Commonwealth; however, as of December 15, 1995, the Commonwealth granted the Authority an easement to operate and maintain the tunnel. Since this date, its operations have been included in the accompanying financial statements.

In March 1997, the Commonwealth established pursuant to Chapter 3 of the Acts of 1997, a new enabling act, and repealed the two prior special acts noted above that previously had governed the Authority. The new enabling act establishes two separate systems to be owned and operated by the Authority, the Metropolitan Highway System and the Western Turnpike.

The Metropolitan Highway System comprises the Boston Extension of the Turnpike, the Callahan Tunnel, the Central Artery/Tunnel, the Central Artery North Area, the Sumner Tunnel and the Ted Williams Tunnel. The Western Turnpike consists of that portion of the Turnpike extending from the New York border in the Town of West Stockbridge to Route 128 in Weston.

The Authority's financial statements are incorporated into the financial statements of the Commonwealth as the Commonwealth is legally obligated for the Authority's bond anticipation notes in the event of default. The Authority, therefore, meets the criteria of a component unit of the Commonwealth.

## (2) Summary of Significant Accounting Policies

The accounting policies of the Authority conform to generally accepted accounting principles as applicable to government enterprises. The following is a summary of the Authority's significant accounting policies:

### *Basis of Presentation*

The Authority's financial statements are reported on the accrual basis of accounting as specified by the Governmental Accounting Standards Board's requirements for an enterprise fund. Under Governmental Accounting Standards Board (GASB) Statement

**(2), Continued**

No. 20, *Accounting and Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority has elected to apply all Financial Accounting Standards Board Statements and Interpretations issued on or before November 30, 1989, except those that conflict with or contradict GASB pronouncements.

*Cash and Cash Equivalents*
The Authority's policy is to treat unrestricted investments with a maturity date of three months or less when purchased as cash equivalents for purposes of the cash flow statements.

*Investments*
Investments are stated at amortized cost which approximates market value. The cost of securities sold is based upon the specific identification method.

*Inventories*
Inventories consist primarily of sodium chloride, bulk gasoline, highway guardrails, and printed toll tickets. Inventories are valued at cost, determined by the first-in, first-out method.

*Property, Plant and Equipment*
Property, plant and equipment is recorded at cost. Infrastructure consists of the initial construction costs to build the highways, structures, pavement, shoulders, service areas and other similar costs. Improvements consist of reconditioning of the highway structure and improvements to protection devices, lighting systems, signage and other similar costs.

The costs of normal maintenance and repairs are not capitalized. The cost of certain equipment used in administration and maintenance such as police and other light vehicles and office equipment have not been capitalized since the cost of such items is not material.

*Depreciation*
The Authority provides for depreciation using the straight-line method. Depreciation is intended to distribute the cost of depreciable properties over the following estimated average useful lives:

| | Years |
|---|---|
| Infrastructure | 50 |
| Buildings | 30 |
| Improvements to Turnpike and Tunnels | 30 |
| Equipment | 12 |

**(2), Continued**

*Interest Costs on Construction*
Interest is capitalized on fixed assets constructed with borrowed money. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. In fiscal year 1997, net interest cost capitalized amounted to $2,309,963 which was comprised of interest expense of $2,672,212 less interest income of $362,249. In fiscal 1996, net interest cost capitalized amounted to $23,195,428 which was comprised of interest expense of $30,121,742 less interest income of $6,926,314.

*Revenue Bond Discounts and Issuance Costs*
Revenue bond discounts are deferred and amortized on a weighted-average basis over the term of the bonds. Unamortized amounts are presented as a reduction of the face amount of bonds payable. Expenses related to the issuance of bonds are amortized on a weighted-average basis over the life of the bonds. The weighted average amortization method approximates the effective interest method. Issuance costs are recorded as other assets.

*Compensated Absences*
Certain employees of the Authority accumulate unused vacation and sick time (subject to certain limitations) to be used at a later date or paid in cash upon termination and/or retirement from the Authority. The liability for vacation leave is based on the amount earned but not used; for sick leave, it is based on the amount accumulated at the balance sheet date based on years of service (vesting method). The liability for both amounts is calculated based on the pay or salary rates in effect at the balance sheet date.

*Reclassifications*
Certain reclassifications were made to fiscal year 1996 financial statements to conform to the fiscal year 1997 presentation.

*Use of Estimates*
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## (3) Deposits and Investments

The Authority is authorized to invest in obligations of the U.S. Treasury, its agencies and instrumentalities, bonds or notes of public agencies, states or municipalities, bank time deposits, guaranteed interest contracts, money market accounts, interest rate swap agreements, repurchase agreements or commercial paper, notes, bonds or other obligations of any corporation that has obtained specific ratings.

### *(a) Deposits*

A summary of the Authority's deposits that are fully insured or collateralized with securities held by the Authority or its agent in the Authority's name (Category 1), those deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name (Category 2), and those deposits that are not collateralized (Category 3) as of December 31, 1997 are as follows. Managed investment pools are not categorized.

| | Category | | | Total Bank Balance | Carrying Amount |
|---|---|---|---|---|---|
| | 1 | 2 | 3 | | |
| Cash and cash equivalents | $ 475,895 | - | 29,947,876 | $ 30,423,771 | 30,030,743 |
| Not categorized: | | | | | |
| Money market mutual funds | | | | 173,752 | 173,752 |
| Deferred compensation plan | | | | 17,803,975 | 17,803,975 |
| Total | | | | $ 48,401,498 | 48,008,470 |

Outstanding checks largely account for the difference between the bank balance and the carrying amount of deposits.

### *(b) Investments*

The Authority's investments are categorized according to the level of risk assumed by the Authority. Category 1 includes investments that are insured, registered or held by the Authority's trustee in the Authority's name. Category 2 includes uninsured and unregistered investments held by the counterparty's trust department or agent in the Authority's name. Category 3 includes uninsured or unregistered

**(3), Continued**

investments held by the counterparty, its trust department or agent but not in the Authority's name:

| | Category 1 | Category 2 | Category 3 | Total Carrying Amount | Estimated Market Value |
|---|---|---|---|---|---|
| U.S. Government obligations | $ - | 1,056,095,505 | - | $ 1,056,095,505 | 1,050,310,551 |
| U.S. Government Agency obligations | - | 161,223,214 | - | 161,223,214 | 159,449,950 |
| Guaranteed interest contracts | - | 114,588,042 | - | 114,588,042 | 114,588,042 |
| Total | $ - | 1,331,906,761 | - | $ 1,331,906,761 | 1,324,348,543 |

The following summarizes cash and investments as of December 31 by the various funds and accounts established. Investments are restricted under various loan agreements:

| | 1997 | 1996 |
|---|---|---|
| Revenue Fund | $ 15,375,075 | 21,182,885 |
| Sinking Fund: | | |
| Debt Service Account | - | 36,918,962 |
| General Reserve Account | - | 27,914,535 |
| Redemption Account | - | 24,406,842 |
| Repair and Reconstruction Fund | - | 32,572,925 |
| Toll Rate Stabilization Fund | - | 2,227,382 |
| 1996 BAN Fund | 48,258,956 | 69,376,975 |
| 1996 BAN Construction Fund | - | 1,082,451 |
| 1993 Series A Construction Fund | - | 22,368,166 |
| Insurance Fund | - | 2,551,776 |
| General Fund | 111,915,493 | - |
| Operating Fund | 3,604,553 | - |
| Senior Debt Service Fund | 252,411,823 | - |
| Senior Debt Service Reserve Fund | 129,345,857 | - |
| Subordinated Debt Service Fund | 43,805,631 | - |
| Subordinated Debt Service Reserve Fund | 15,583,365 | - |
| Capital Reinvestment Fund | 20,803,663 | - |
| Bond Proceeds Fund: | | |
| Capital Account | 16,026,615 | - |
| Commonwealth Payment Account | 704,980,225 | - |
| Ted Williams Tunnel: | | |
| Transition Fund | - | 236,545 |
| Revenue Fund | - | 1,766,747 |
| Totals | $ 1,362,111,256 | 242,606,191 |

## MASSACHUSETTS TURNPIKE AUTHORITY

Notes to Financial Statements, Continued

### (4) Property, Plant and Equipment

Property, plant and equipment consisted of the following at December 31:

| | 1997 | 1996 |
|---|---|---|
| Land | $ 82,182,210 | 79,620,910 |
| Infrastructure | 1,341,236,248 | 630,441,504 |
| Improvements | 419,074,565 | 376,240,921 |
| Buildings | 42,859,823 | 41,621,955 |
| Equipment | 29,366,132 | 25,723,477 |
| | 1,914,718,978 | 1,153,648,767 |
| Less accumulated depreciation | (431,880,062) | (401,776,584) |
| Net property, plant and equipment | 1,482,838,916 | 751,872,183 |

### (5) Bonds and Notes Payable

Long-term debt at December 31, 1997 and 1996 consisted of the following:

| | 1997 | 1996 |
|---|---|---|
| Revenue Bonds: | | |
| Metropolitan Highway System: | | |
| 1997, Series A, 5.05% to 5.65%, issued September 24, 1997 due 2010 to 2037 | $ 1,183,046,617 | - |
| 1997, Series C, 5.40% to 5.55%, issued September 24, 1997 due 2016 to 2023 | 89,136,006 | - |
| Western Turnpike: | | |
| 1997, Series A, 5.55%, issued September 24, 1997 due 2017 (mandatory sinking fund requirements from 1999 to 2017) | 297,520,000 | - |
| 1993, Series A Term and Serial Bonds, 4% to 5.125%, issued March 1, 1993 due January 1, 1998 to January 1, 2023 | - | 365,555,000 |
| Subordinated debt: | | |
| Metropolitan Highway System: | | |
| 1997 Series B, 5.00% to 5.57%, issued September 24, 1997 due 2010 to 2037 | 194,680,000 | - |
| Guaranteed Bond Anticipation Notes: | | |
| Metropolitan Highway System: | | |
| 1996 Series A, 5%, issued January 15, 1996 due 1999 | 55,905,000 | 259,315,000 |
| Subtotal | 1,820,287,623 | 624,870,000 |
| Less: | | |
| Unamortized bond discounts, net | (101,514,530) | (10,511,001) |
| Unamortized excess of reacquisition price over net carrying amount of defeased bonds, net | (5,087,356) | (10,172,910) |
| Bonds and notes, net | $ 1,713,685,737 | 604,186,089 |

**(5), Continued**

During the year ended December 31, 1997, the Authority issued $1,764,382,623 in Revenue Bonds, 1997 Series. The Series A and B Bonds, the Series C Bonds and the Western Turnpike Bonds are being issued to refund the 1993 Series A Revenue Bonds and a portion of the 1996 Series A Guaranteed Bond Anticipation Notes and to finance an aggregated $700 million payment by the Authority to the Commonwealth by December 31,1998 for the Central Artery/Tunnel project costs (see note 6).

During the year ended December 31, 1996, the Authority retired $12,571,000 of the 1962 Series A Revenue Bonds and recognized an extraordinary loss of $947,514 representing the premium paid in each year to redeem the bonds.

On January 15, 1996, the Authority issued $259,315,000 in Guaranteed Bond Anticipation Notes, Series A, which mature on June 1, 1999 and are unconditionally guaranteed by the Commonwealth. During 1997, $203,410,000 of these notes were advance refunded by the Authority with the proceeds from the Metropolitan Highway System 1997 Series A Revenue Bonds.

Interest is payable semiannually on all debt, except on Series C Bonds and $20,685,000 of Series A Bonds (capital appreciation bonds) on which interest is payable upon maturity. Revenue Bonds are collateralized by a lien and pledge on substantially all of the Authority's cash and revenues.

Debt service requirements on bond anticipation notes and revenue bonds subsequent to December 31, 1997 are as follows:

| Year Ending December 31, | | Principal | Interest | Total |
|---|---|---|---|---|
| 1998 | $ | - | 75,654,037 | 75,654,037 |
| 1999 | | 65,450,000 | 85,264,651 | 150,714,651 |
| 2000 | | 11,095,000 | 83,337,281 | 94,432,281 |
| 2001 | | 11,635,000 | 82,721,510 | 94,356,510 |
| 2002 | | 12,295,000 | 82,075,768 | 94,370,768 |
| Thereafter | | 1,719,812,623 | 2,205,807,470 | 3,925,620,093 |
| Total | $ | 1,820,287,623 | 2,614,860,717 | 4,435,148,340 |

**(5), Continued**

In October 1997, approximately $555,909,000 of the net proceeds from the issuance of the 1997 Series Revenue Bonds were used to purchase U.S. Government securities which were then deposited in an irrevocable trust with an escrow agent to provide all future debt service payments on the 1993 Series A Revenue Bonds and $203,410,000 of the Guaranteed Bond Anticipation Notes. As a result, the 1993 Revenue Bonds and that portion of the Guaranteed Bond Anticipation Notes are considered to be defeased and the liability for those bonds has been removed from the balance sheet.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately $267 thousand. This difference, reported in the accompanying financial statements in 1997 as a deduction from Bonds and Notes Payable, is being charged to operations through January 2017, using the straight-line method. The results of the advance refunding increased the debt service payments over the next 40 years by approximately $488 million and resulted in an economic loss of approximately $4.8 million.

In January 1996, approximately $56,573,000 of the net proceeds from the issuance of the Guaranteed Bond Anticipation Notes was used to purchase U.S. Government securities which were then deposited in an irrevocable trust with an escrow agent to provide all future debt service payments on the Authority's Massachusetts Industrial Finance Agency (MIFA) Tunnel Revenue Bonds, Series 1990, due October 1, 2020. As a result, the MIFA bonds were considered to be defeased and the liability for those bonds has been removed from the balance sheet.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately $14.2 million. This difference, reported in the accompanying financial statements in 1996 as a deduction from Bonds and Notes Payable, is being charged to operations through June 1, 1999 using the straight-line method. The advance refunding resulted in reduced debt service payments over the next 25 years by approximately $48 million and resulted in an economic gain of approximately $13 million.

At December 31, 1997, the principal amounts outstanding on revenue bonds and notes outstanding are considered defeased is as follows:

| Description | Redemption Date | Redemption Price | Principal Amount Outstanding |
|---|---|---|---|
| 1990 Series A | 1998 to 2020 | 100% to 102% | 43,800,000 |
| 1993 Series A Serial | 1998 to 2008 | 100% to 102% | 102,200,000 |
| 1993 Series A Term | 2013 to 2023 | 100% | 263,355,000 |
| 1996 Guaranteed Bond Anticipation Notes | 1999 | 100% | 203,410,000 |

**(5), Continued**

Outstanding bonds that are redeemable before their scheduled due dates are as follows at December 31, 1997:

| Description | Redemption Date | Redemption Price | Outstanding Principal Amount |
|---|---|---|---|
| Metropolitan Highway System | | | |
| 1997 Series A & B | 2010-2037 | 100 to 102% | $ 1,377,726,617 |
| Western Turnpike | | | |
| 1997 Series A | 1999-2017 | 100% | 297,520,000 |

**(6) Due to the Commonwealth**

The Authority is obligated to pay $700 million to the Commonwealth no later than December 31, 1998 toward the acquisition costs of the Ted Williams Tunnel. The Authority has issued 1997 Series A and B Bonds to fund this obligation. The proceeds are held by the Authority in the Bond Proceeds Fund established under the Metropolitan Highway System Trust Agreement.

**(7) Employee Benefit Plans**

During 1997, the Authority adopted GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, which modified the disclosures required for the Authority's retirement plan.

*Plan Description*
The Massachusetts Turnpike Authority Employees' Retirement Plan (the "Plan"), is a single employer contributory defined benefit pension plan administered by the Massachusetts Turnpike Authority Employees' Retirement System ("System"). The Plan provides retirement, disability and death benefits to plan members and beneficiaries.

Massachusetts General Laws (MGL), principally Chapter 32, establishes and amends benefit provisions. The System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The report may be obtained by writing to the Massachusetts Turnpike Employees' Retirement System at the State Transportation Building, 10 Park Plaza, Boston, MA, 02116.

**(7), Continued**

*Funding Policy*
The contribution requirements of plan members and the Authority are established and may be amended by the State Legislature. Depending upon their employment date, active plan members are required to contribute 5% to 9% of their annual covered compensation. Members hired after December 31, 1978 must contribute an additional 2% of regular compensation in excess of $30,000. The Authority is required to contribute amounts pursuant to MGL section 22(6A) of Chapter 32 which is the normal cost plus a 15-year (8 years from January 1, 1997) level amortization of the expected unfunded actuarial liability plus a 15-year level amortization of any gains or losses since the January 1, 1997 actuarial valuation. Such amounts represent approximately 5.4% of covered payroll at January 1, 1997.

*Annual Pension Cost*
The annual required contribution for the current year was determined as part of the January 1, 1997, actuarial valuation using the entry age normal cost method. The actuarial assumptions included (a) 8.5% investment rate of return, and b) projected salary increases of 6% per year. Both (a) and (b) include an inflation component of 4.5%. Liabilities for cost of living increases have been approximated, assuming an annual cost of 2% on the first $9,000 annual pension. As of January 1, 1997, this adjustment is assumed to increase normal cost by 5%, and the actual accrued liability by 4% (actives) and 12% (inactives). Assets are valued at market value.

*Three Year Trend Information*

| Fiscal Year Ending December | Annual Pension Cost (APC)(1) | Percentage of APC Contributed | Net Pension Obligation |
|---|---|---|---|
| 1997 | $ 2,947,598 | 100% | - |
| 1996 | $ 5,619,856 | 100% | - |
| 1995 | $ 2,285,331 | 100% | - |

(1) the required contributions were $2,657,949, $2,443,952 and $2,182,803 in 1997, 1996 and 1995, respectively.

## (7), Continued

*Schedule of Funding Progress*

| Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) Entry Age (b) | Unfunded Actuarial Accrued Liability (UAAL) (c) (b-a) | Funded Ratio (a/b) | Covered Payroll (d) | UAAL as a Percentage of Covered Payroll (c/d) |
|---|---|---|---|---|---|---|
| 1/1/95 | $ 105,025,937 | $ 107,691,737 | $ 2,665,800 | 97.5% | $ 49,311,019 | 5.4% |
| 1/1/96 | 114,569,547 | 117,383,869 | 2,814,322 | 97.6% | 54,849,372 | 5.1% |
| 1/1/97 | 128,744,051 | 135,620,702 | 6,876,651 | 94.9% | 48,878,082 | 14.1% |

## (8) Other Post-Employment Benefits

In addition to the pension benefits described in note 7, the Authority has voluntarily established a plan to provide certain health care benefits to its retired employees. The Authority's contribution to the plan is advance funded on an actuarially determined basis using the individual entry age normal cost method. The significant actuarial assumptions, used for the January 1, 1997, actuarial valuation, included (a) 8.5% investment rate of return, (b) projected salary increases of 6% per year, and (c) future increases in claim costs of 8-11%.

The number of plan participants is 1,795 of which 1,180 are active employees. The actuarially required contribution for 1997 was approximately $3 million. Nothing was contributed in 1997 and $9,000,000 was contributed in 1996. Those amounts were charged to expense during those years.

The funded status of the plan at January 1, 1997 is as follows:

| | |
|---|---|
| Actuarial accrued liability: | |
| Actives | $ 25,177,000 |
| Inactives | 11,432,000 |
| Total | 36,609,000 |
| Actuarial value of assets | 28,926,000 |
| Unfunded actuarial accrued liability | $ 7,683,000 |
| Funded ratio | 79% |

Plan members contribute 10-20% of premiums depending on their union or nonunion status and the type of plan selected.

## (8), Continued

In addition to contributions to the Plan, the Authority expensed on a pay-as-you-go basis approximately $1,760,000 and $1,312,000 in 1997 and 1996, respectively, for post-employment healthcare benefits.

## (9) Deferred Compensation Plans

The Authority's deferred compensation plans were created in accordance with Internal Revenue Code Section 457. The plans, available to all employees of the Authority, permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death, disability, or unforeseeable emergency. All amounts of compensation deferred under the plans, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the Authority (without being restricted to the provision of benefits under the plan), subject only to the claims of the Authority's general creditors. Participants' rights under the plans are equal to the fair market value of the deferred account for each participant. All plan assets are stated at market value.

It is the opinion of the Authority that it has no liability for losses under the plans, but it does have the duty of due care which would be required of an ordinary prudent investor. The plan assets are subject to the claims of the Authority's general creditors; however, plan assets have not been used in the past to satisfy such claims. A portion of the Authority's deferred compensation funds are invested in derivative investments for hedging purposes, however; these investments are not material and are not used for speculative purposes.

The assets and liabilities of the Authority's deferred compensation plans, with a market value of $17,803,975 and $15,047,325, are included in the financial statements at December 31, 1997 and 1996, respectively.

## (10) Leases

The Authority has commitments under operating leases for administrative office space and automatic toll collection equipment. These operating leases expire on various dates through June 2002 and are generally expected to be renewed or replaced by similar leases. Lease expense in 1997 and 1996 was $906,706 and $873,380, respectively, of which $545,478 and $554,207, respectively, was paid for the benefit of the Commonwealth for office space in a state owned building. Future minimum lease payments under the above leases are as follows:

| | |
|---|---|
| 1998 | $ 1,154,816 |
| 1999 | 847,122 |
| 2000 | 847,122 |
| 2001 | 847,122 |
| 2002 | 847,122 |
| Total | $ 4,543,304 |

The Authority leases property and air rights to others. During 1997 and 1996, the Authority earned $5,492,896 and $4,764,426 in rental income, respectively.

The following is a schedule by years of minimum future rental income on noncancelable operating leases as of December 31, 1997:

| | |
|---|---|
| 1998 | $ 7,181,137 |
| 1999 | 7,066,253 |
| 2000 | 6,977,219 |
| 2001 | 4,502,559 |
| 2002 | 21,479,692 |
| Total | $ 47,206,860 |

## (11) Risk Management

The Authority from time to time is engaged in various matters of routine litigation. These matters include personal injury and property damage claims for which the Authority's liability is covered in whole or in part by insurance. Routine litigation also includes disputes with contractors, subcontractors, and others arising from the construction or maintenance of the tunnels and turnpike. The Authority does not expect that these matters will require any amounts to be paid which in the aggregate would materially affect the financial statements.

## MASSACHUSETTS TURNPIKE AUTHORITY

Notes to Financial Statements, Continued

### (11), Continued

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to and illnesses of employees; and natural disasters. Certain risks are self-insured while others are covered by commercial insurance. The Authority has obtained health coverage for most active employees through various commercial health maintenance organizations. The health coverage for certain other employees as well as coverage for job-related injuries to all employees is self-insured by the Authority, with the risks managed internally. The Authority purchases excess workers' compensation insurance in the commercial market for losses exceeding a retention amount of $400,000. The Authority has obtained insurance coverage from various commercial insurers for all other risks of loss.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. Insurance in 1997 is consistent with the prior year.

Liabilities for self-insured claims are reported if it is probable that a loss has been incurred and the amount can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported at year-end and are based on the historical cost of settling similar claims. The Authority records such liabilities as accrued expenses. Changes in the claims liability insurance reserves in fiscal 1997 and 1996 were as follows:

| | | Health | Workers' Compensation |
|---|---|---|---|
| Liability balance, December 31, 1995 | $ | - | 16,630,000 |
| Provision to record estimated losses | | 1,938,597 | 108,828 |
| Payments | | (1,745,390) | (2,708,900) |
| Liability balance, December 31, 1996 | | 193,207 | 14,029,928 |
| Provision to record estimated losses | | 1,648,240 | 2,835,295 |
| Payments | | (1,725,523) | (2,362,897) |
| Liability balance, December 31, 1997 | $ | 115,924 | 14,502,326 |

### (12) Commitments

The Authority enters into construction contracts for the Metropolitan Highway System and the Western Turnpike with various construction and engineering companies. Construction contracts outstanding at December 31, 1997 approximated $26 million. Projected construction expenditures for 1998 approximate $42 million.

## MASSACHUSETTS TURNPIKE AUTHORITY

Notes to Financial Statements, Continued

### (12), Continued

In addition, the Authority has committed to pay the Commonwealth an additional $400 million by December 31, 2002 related to the acquisition of the Central Artery. Payment of this amount is subject to the Commonwealth meeting certain conditions.

### (13) Compliance with Trust Agreements

Under the provisions of the 1997 Series Revenue Bonds on October 2, 1997, the Authority is required to maintain separate accounting records for the Western Turnpike and Metropolitan Highway System as well as the Authority's general fund. The basis of accounting used for these records is consistent with that required by the Authority's loan agreements but differs from the accounting principles used to prepare the accompanying financial statements.

Selected financial information as of December 31, 1997 and for the period October 2, 1997 through December 31, 1997 for the respective operating segments and presented on the basis of accounting prescribed in the Authority's loan agreements is as follows:

| | Metropolitan Highway System | Western Turnpike | General Fund | Total |
|---|---|---|---|---|
| Total assets | 2,455,686,604 | 672,298,966 | 101,529,927 | 3,229,515,497 |
| Total liabilities | 2,165,795,804 | 342,372,329 | 202,972 | 2,508,371,105 |
| Total equity earnings | 289,890,800 | 329,926,637 | 101,326,955 | 721,144,392 |
| Toll revenues, net | 21,588,586 | 20,564,092 | - | 42,152,678 |
| Excess of revenues over operating expenses | 8,860,033 | 31,642,402 | 1,180,948 | 41,683,383 |

Allocations of certain revenues and costs for this period were made utilizing management's best estimates.

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# AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members of the Board of Directors
Massachusetts Turnpike Authority:

We have audited the financial statements of the Massachusetts Turnpike Authority, as of and for the year ended December 31, 1997, and have issued our report thereon dated March 11, 1998. Our report refers to the adoption of Statement No. 27 of the Governmental Accounting Standards Board, *Accounting for Pensions by State and Local Governmental Employers*. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Massachusetts Turnpike Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Massachusetts Turnpike Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting or its operation that we consider to be material weaknesses.

This report is intended for the information of management. However, this report is a matter of public record and its distribution is not limited.

KPMG Peat Marwick LLP

March 11, 1998

# MASSACHUSETTS TURNPIKE AUTHORITY
# EMPLOYEES' RETIREMENT SYSTEM

## FINANCIAL STATEMENTS

YEARS ENDED
DECEMBER 31, 1997 AND 1996

MASSACHUSETTS TURNPIKE AUTHORITY
EMPLOYEES' RETIREMENT SYSTEM

INDEX

YEARS ENDED
DECEMBER 31, 1997 AND 1996


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DIPESA &
COMPANY
CPAS

February 24, 1998

Massachusetts Turnpike Authority
Employees' Retirement System
Boston, Massachusetts

Re: Independent Auditor's Report

Members of the Board:

We have audited the accompanying statements of plan net assets of the Massachusetts Turnpike Authority Employees' Retirement System ("Retirement System") as of December 31, 1997 and 1996, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Massachusetts Turnpike Authority Employees' Retirement System as of December 31, 1997 and 1996, and the changes in plan net assets for the years then ended, in conformity with generally accepted accounting principles.



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The schedules of required supplementary information (schedule of funding progress and schedule of employer contributions) are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,

DI PESA & COMPANY

Di Pesa & Company

Certified Public Accountants

MASSACHUSETTS TURNPIKE AUTHORITY
EMPLOYEES' RETIREMENT SYSTEM

STATEMENTS OF PLAN NET ASSETS

DECEMBER 31, 1997 AND 1996

| | 1997 | 1996 |
|---|---|---|
| ASSETS | | |
| Cash and Cash Equivalents (Note 5) | $ 8,667,537 | $ 12,637,627 |
| Investments, at Fair Value (Note 5) | | |
| U.S. Government Securities | 28,808,183 | 24,506,735 |
| Equities - Combined Investment Funds | 39,672,686 | 31,819,707 |
| Mortgage Certificates | 12,960,708 | 20,099,009 |
| Asset Backed Securities | 2,565,376 | 2,529,980 |
| Commingled Trust Funds | 36,020,646 | 26,703,942 |
| International Trust Fund | 11,867,288 | 11,249,685 |
| Miscellaneous Notes and Bonds | 8,749,730 | 3,956,155 |
| Total Investments | 140,644,617 | 120,865,213 |
| Accounts Receivable | 150,402 | 7,786 |
| Interest and Dividends Receivable | 632,942 | 676,129 |
| Principal Adjustment Account | - | 2,687 |
| TOTAL ASSETS | 150,095,498 | 134,189,442 |
| LIABILITIES | ( 549,373) | ( 542,298) |
| NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (A schedule of Funding Progress is presented in Supplementary Information) | $ 149,546,125 | $ 133,647,144 |

See Independent Auditor's Report and accompanying notes.

MASSACHUSETTS TURNPIKE AUTHORITY
EMPLOYEES' RETIREMENT SYSTEM

STATEMENTS OF CHANGES IN PLAN NET ASSETS

FOR THE YEARS ENDED DECEMBER 31, 1997 AND 1996

| ADDITIONS | 1997 | 1996 |
|---|---|---|
| INVESTMENT INCOME | | |
| Net Appreciation in Fair Value of Investments | $ 9,400,057 | $ 4,970,384 |
| Net Investment Income | 8,308,785 | 6,584,186 |
| TOTAL INVESTMENT INCOME | 17,708,842 | 11,554,570 |
| CONTRIBUTIONS (Note 3) | | |
| Employer | 2,947,598 | 5,281,000 |
| Employee | 4,196,445 | 4,161,032 |
| TOTAL CONTRIBUTIONS | 7,144,043 | 9,442,032 |
| OTHER ADDITIONS TO PLAN ASSETS | | |
| Transfer from Other Systems | 647,645 | 569,555 |
| Expense Fund Appropriation | - | 338,856 |
| Section 3(8)(c) Reimbursements Received | 373,504 | 279,779 |
| TOTAL ADDITIONS | 25,874,034 | 22,184,792 |
| DEDUCTIONS | | |
| Benefits Paid - Pension Payments | 7,209,284 | 5,603,183 |
| Benefits Paid - Annuity Payments | 1,230,827 | 981,540 |
| Member Refunds | 924,579 | 681,838 |
| Administrative Expenses | 313,842 | 289,431 |
| Section 3(8)(c) Reimbursements Paid | 59,952 | 60,811 |
| Amortization - Principal Adjustment Account | 2,687 | 10,750 |
| Transfers to Other Systems | 233,882 | 24,739 |
| TOTAL DEDUCTIONS | 9,975,053 | 7,652,292 |
| NET INCREASE IN PLAN NET ASSETS | 15,898,981 | 14,532,500 |
| NET ASSETS HELD IN TRUST FOR PENSION BENEFITS | | |
| Beginning of Year | 133,647,144 | 119,114,644 |
| End of Year | $149,546,125 | $133,647,144 |

See Independent Auditor's Report and accompanying notes.

MASSACHUSETTS TURNPIKE AUTHORITY
EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1997 AND 1996

1. DESCRIPTION OF PLAN

The following description of the Massachusetts Turnpike Authority Employees' Retirement Plan ("Plan") is provided for general information purposes only. Participants should refer to the Plan agreement for more detailed information.

(a) General - The Plan is a single employer, defined benefit pension plan. It is subject to the provisions of Chapter 32 of the Massachusetts General Laws. The Plan covers substantially all Massachusetts Turnpike Authority employees. Membership in the Plan consisted of the following at January 1, 1997, the date of the latest actuarial update.

| | |
|---|---|
| Active Plan Members | 1,298 |
| Retirees and Beneficiaries Receiving Benefits | 821 |
| Terminated Plan Members Entitled to, but not yet Receiving Benefits | 0 |

Participants who resign from employment and who are not eligible to receive a retirement allowance or who are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending on the number of years of creditable service, such participants are entitled to receive either 0%, 50% or 100% of the regular interest which has accrued on those deductions.

(b) Pension Benefits - Employees with 10 or more years of service are entitled to pension benefits beginning at retirement age 55, and earlier retirement is allowed upon completion of 20 years of service. The System provides for retirement allowance benefits up to a maximum of 80% of a participant's highest consecutive three year average annual rate of regular compensation. Benefit payments are based upon a participants age, length of creditable service, level of compensation, and group classification. Participants become vested after 10 years of creditable service. Chapter 32 of the Massachusetts General Laws assigns authority to establish and amend benefit provisions of the plan, and grant cost-of-living increases, to the state legislature.

(c) Death and Disability Benefits - If a member in service dies, the surviving spouse and/or surviving dependent children may receive benefits, either in a lump sum or in the form of an annuity based on the length of service, contributions, age, and the cause of death. In the event there are no spouse and/or dependent children named, other beneficiaries may be entitled to a lump sum distribution. Participants who become permanently and totally disabled from further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors, including whether or not the disability is work-related, the participant's age, years of creditable service, level of compensation, veteran status, and group classification.

1. DESCRIPTION OF PLAN (Continued)

(d) Early Retirement Incentive Program - The Massachusetts Turnpike Authority (the "Authority") was "authorized to develop and implement an early retirement process for its employees" by provision of Section 312 of Chapter 110 of the Acts of 1993. The process was subsequently approved by the House and Senate Ways and Means Committees.

Eligible employees must have filed a "Notice of Intent" to apply for early retirement to the Massachusetts Turnpike Authority Employees' Retirement Board between August 1, 1995 and August 15, 1995. Retirements under the process were effective from March 15, 1996 through December 31, 1996. One hundred and six members participated in the program.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting - The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with generally accepted accounting principles. Contributions, benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Investment income is recognized as earned by the Plan. The net appreciation (depreciation) in the fair value of investments held by the Plan is recorded as of the date of the Statements of Plan Net Assets. Realized gain (loss) on individual securities sold within the trust funds are shown in investment income.

(b) Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

(c) Method Used to Value Investments - Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

(d) Reclassifications - Certain 1996 amounts have been reclassified to conform with 1997 presentation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Cash Equivalents - The Plan considers investments purchased with original maturities of three months or less to be cash equivalents.

3. FUNDING POLICY

As a condition of participation, employees are required to contribute 5% of their salary if hired prior to January 1, 1975, 7% if hired after that date and before January 1, 1984, 8% if hired after that date and before July 1, 1996, and 9% if hired after July 1, 1996. Employees hired after January 1, 1979, contribute an additional 2% of earnings in excess of $30,000 per year. Overtime and extra pay are not subject to these assessments. The Massachusetts Turnpike Authority contributes to the Massachusetts Turnpike Authority Employees' Retirement System. In 1996 separate appropriations were made for the Plan's administrative expenses and to provide for the following years' retirement benefits. In 1997, an appropriation was received from the Massachusetts Turnpike Authority to provide for the following years retirement benefits. This appropriation included reimbursements for administrative costs to the plan. The actuarial assumption of these reimbursements being included in the appropriation was not considered in the most actuarial report dated January 1, 1997. These appropriations are made in accordance with the funding plan approved by the Commonwealth of Massachusetts Division of Public Employee Retirement Administration Commission.

4. PLAN OBLIGATION

Chapter 32, Section 25(4) of the Massachusetts General Laws states that the payment of all annuities, pensions, retirement allowances, and refunds of accumulated total deductions and of any other benefits granted under the provisions of Sections 1 - 28, inclusive, are obligations of the Massachusetts Turnpike Authority, the governmental entity in which the Plan is established.

5. INVESTMENTS AND CASH EQUIVALENTS

Category One bank deposits and investments are fully insured or collateralized with securities held by the System's Agent and in the System's name. There are no Category Two or Three credit risk deposits or investments. These categories of risk assessments are prescribed by Statement No. 3, paragraphs 67 and 68, of the Government Accounting Standards Board.

5. INVESTMENTS AND CASH EQUIVALENTS (Continued)

The Category One risk assessments for investments at Carrying Value for the years ended December 31, 1997 and 1996 are as follows:

| | 1997 | 1996 |
|---|---|---|
| U.S. Government Securities | $ 28,808,183 | $ 24,506,735 |
| Equities Combined Investment Funds | 39,672,686 | 31,819,707 |
| Mortgage Certificates | 12,960,708 | 20,099,009 |
| Asset Backed Securities | 2,565,376 | 2,529,980 |
| Miscellaneous Notes and Bonds | 8,749,730 | 3,956,155 |
| Commingled Trust Funds | 36,020,646 | 26,703,942 |
| International Trust Fund | 11,867,288 | 11,249,685 |
| TOTALS | $140,644,617 | $120,865,213 |

The carrying amount of the Plan's deposits with financial institutions is $8,667,537 and $12,637,627 for 1997 and 1996 respectively. The Category One risk assessments for cash equivalents at the Bank Balance for the years ended December 31, 1997 and 1996 are as follows:

| | 1997 | 1996 |
|---|---|---|
| Cash Equivalents | $8,738,485 | $12,695,185 |
| TOTALS | $8,738,485 | $12,695,185 |

6. CONCENTRATION OF CREDIT RISK

The Plan maintains cash balances at several banks and investment companies. Cash accounts in each financial institution are insured by the Federal Deposit Insurance Corporation (up to $100,000). Investments are not insured against market fluctuations, however, they are insured against fraud by investment managers.

## 7. CONTINGENCIES

There are various pending claims arising in the ordinary course of operations, however, management estimates that the probable liability resulting from such litigation would not materially affect the Plans' financial position.

Massachusetts General Law (M.G.L. c.32, s.20.03(1)) restricts investments in international equities to 5% of the portfolio Market Value. The Plan obtained a waiver to this regulation in 1997 from the Commonwealth of Massachusetts Division of Public Retirement Administration Commission. Without this waiver the Plan would be in violation of this law.

MASSACHUSETTS TURNPIKE AUTHORITY
EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS
DECEMBER 31, 1997 AND 1996

| (1) | (2) | (3) | (4) | (5) | (6) | (7) |
|---|---|---|---|---|---|---|
| Actuarial Valuation Date | Actuarial Value of Plan Assets | Actuarial Accrued Liability (AAL) | Unfunded AAL (UAAL) (2)-(3) | Actuarial Value of Assets as a Percentage of AAL (Funded Ratio) (2)/(3) | Annual Covered Payroll | UAAL as a Percentage of Covered Payroll (4)/(6) |
| 1/1/94 | $ 98,143,844 | $ 98,868,063 | $ 724,219 | 99.3% | $46,432,773 | 1.6% |
| 1/1/95 | 105,025,937 | 107,691,737 | 2,665,800 | 97.5% | 49,311,019 | 5.4% |
| 1/1/96 | 114,569,547 | 117,383,869 | 2,814,322 | 97.6% | 54,849,372 | 5.1% |
| 1/1/97 | 128,744,051 | 135,620,702 | 6,876,651 | 94.9% | 48,878,082 | 14.1% |

The actuarial value of plan assets for actuarial valuation dates of January 1, 1992 and 1993 are unavailable, and accordingly, only the 1994 through 1997 information is presented

MASSACHUSETTS TURNPIKE AUTHORITY
EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF EMPLOYER CONTRIBUTIONS
YEARS ENDED DECEMBER 31, 1997 AND 1996

| Year Ended December 31 | Annual Required Contributions of Employer | Percentage Contributed |
|---|---|---|
| 1992 | $1,810,556 | 89.3% |
| 1993 | 1,919,523 | 100% |
| 1994 | 1,919,738 | 100% |
| 1995 | 2,182,803 | 100% |
| 1996 | 2,443,952 | 100% |
| 1997 | 2,657,949 | 100% |

MASSACHUSETTS TURNPIKE AUTHORITY
EMPLOYEES' RETIREMENT SYSTEM
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 1997 AND 1996

The information presented in the required supplementary schedules was determined as part of the actuarial valuations as of January 1, 1997, the date of the latest actuarial update.

| | |
|---|---|
| Actuarial Cost Method | Entry Age |
| Amortization Method | Level Funded |
| Amortization Period | 15 Years |
| Actuarial Assumptions: | |
| Investment Rate of Return | 8.5% |
| Projected Salary Increases | 6.0% |
| Inflation Rate | 4.5% |
| Cost of Living Adjustment | 2% |